



AUDITOR - GENERAL
SOUTH AFRICA

TRADE, INDUSTRY AND COMPETITION PORTFOLIO COMMITTEE INDUCTION

Date: 17 September 2024

7th
Administration

MISSION



“The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby **building public confidence.**”

VISION



“To be recognised by all our stakeholders as a relevant supreme audit institution (SAI) that enhances public sector accountability.”

Constitutional Mandate of AGSA

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Chapter 9: Section 188

AGSA's mandate: Strengthen constitutional democracy in the Republic. AGSA must audit and report on, accounts, financial statement and financial management of government institutions.

Chapter 3: Section 41

All organs of state must secure the well-being of the people of the Republic

Chapter 3: Section 41

All organs of state must provide effective, transparent, accountable and coherent government for the Republic as a whole

Public Audit Act no. 25, 2004
Section 20:

AGSA must prepare audit report containing opinion/ conclusion on:

- ☐ Fair presentation of the financial statements
- ☐ Compliance with applicable legislation
- ☐ Reported performance against predetermined objectives

Also includes as per section 5:

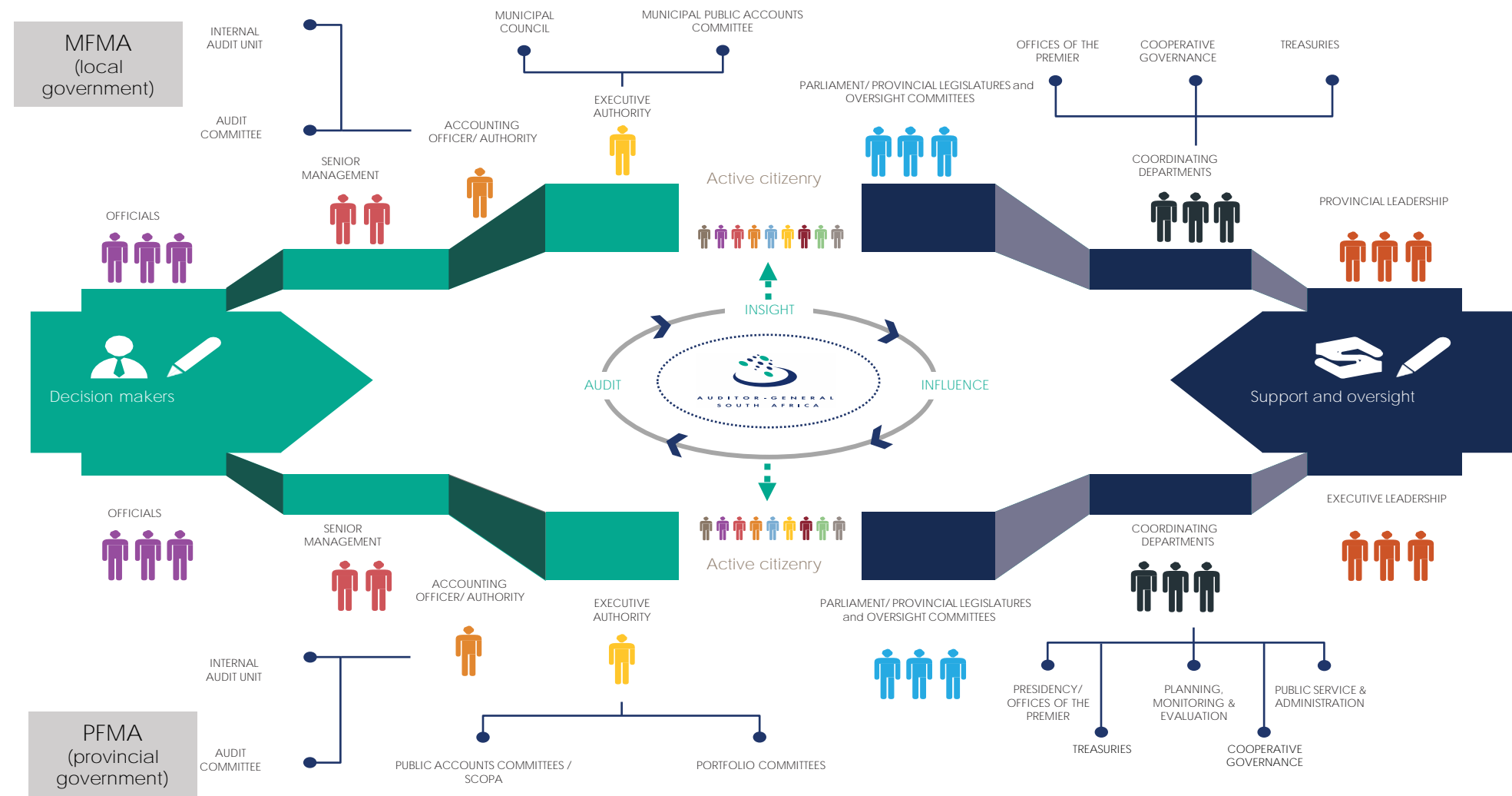
- ☐ Discretionary audits (including sector audits, investigations and performance audits)

Status and functions of the AGSA
The AG has the power to:

- *Perform an appropriate audit to ... determine whether appropriate and adequate measures have been implemented to ensure that resources are procured economically and utilised efficiently and effectively*
- *Take any appropriate remedial action, and*
- *Issue a certificate of debt ...where an AO or AA has failed to comply with remedial action*



All have role to play in accountability ecosystem



Oversight and monitoring role of Parliament

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Use information in the audit report on material irregularities for accountability and oversight purposes, insisting on timeous implementation of recommendation

Use reports tabled on progress with material irregularities to oversee and influence progress made by public bodies with investigations and executive authorities (for recovery of debt)

Hold the executive authorities accountable for failures in the control environment

Follow up on the actions taken against the official(s) responsible for transgressions.

Obtain reports on investigations into transgressions and irregularities conducted and effecting the entity

Follow up annually on previous commitments made by the accounting officers

Determine if corrective steps are being taken to address the shortcomings in the internal control environment.

Enquire what training and support is given to officials to enable them to correctly execute their responsibilities



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OVERALL PORTFOLIO OUTCOMES



Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion



Auditee:

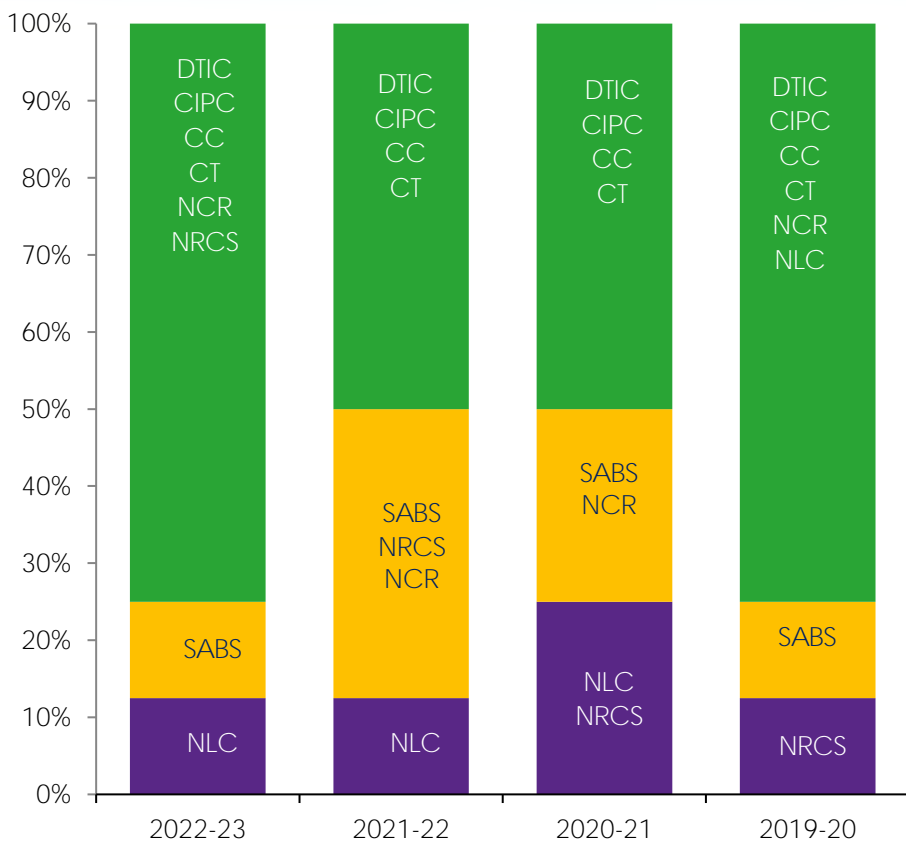
- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in financial statements
2. Reliable and credible performance information for predetermined objectives
3. Compliance with laws and regulations governing financial matters



Stagnation in the audit outcome over 6th administration term (audits performed by AGSA)



High level reflection of outcomes over the admin term
In the 2022/23 financial year, six auditees (DTIC, CIPC, CC, CT, NRCS, NCR) submitted annual financial statements (AFS) that are free of material misstatements. SABS and NLC submitted AFS for audit which contained material misstatements however SABS was able to correct the misstatements identified through the audit process. NLC was unable to submit sufficient, appropriate audit evidence whether all approved allocation of grants were recorded in the consolidated AFS and thus a qualified audit opinion was issued. Other material misstatements were identified during the audit in the submitted financial statements of NLC in the areas of receivables, revenue and expenditure, however these were corrected by management.

It is commendable that 88% of the entities in the portfolio achieved an unqualified audit opinion on the AFS.

Current culture
The factors that contribute to clean audit outcomes which has become a culture within the trade, industry and competition portfolio include strong leadership oversight that is deeply embedded within the organisation, ensuring a clear vision and direction.

Additionally, constant monitoring occurs at all levels to maintain accountability and transparency. Internal audit plays a crucial role by effectively executing their scope, which includes thorough follow-up on audit action plans and closely monitoring the implementation of actions to address findings from prior audits.

Root causes
Ineffective reviews of the AFS by management and the accounting authority prior to submission for audit resulted in unfavorable audit outcomes. Furthermore, regular financial reports supported by and evidenced by reliable information was not prepared. Management is urged to enhance the record keeping process to ensure that information supporting the financial statements is easily retrievable for audit purposes.

Recommendations
The accounting authorities should implement disciplined financial reporting structures based on solid accounting and financial management knowledge and enhance review processes of the financial statements to ensure that quality financial statements is submitted for audit. This would eliminate the need for any material audit adjustments.



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PORTFOLIO PERFORMANCE



Overall Performance against MTSF (Strat plan) targets

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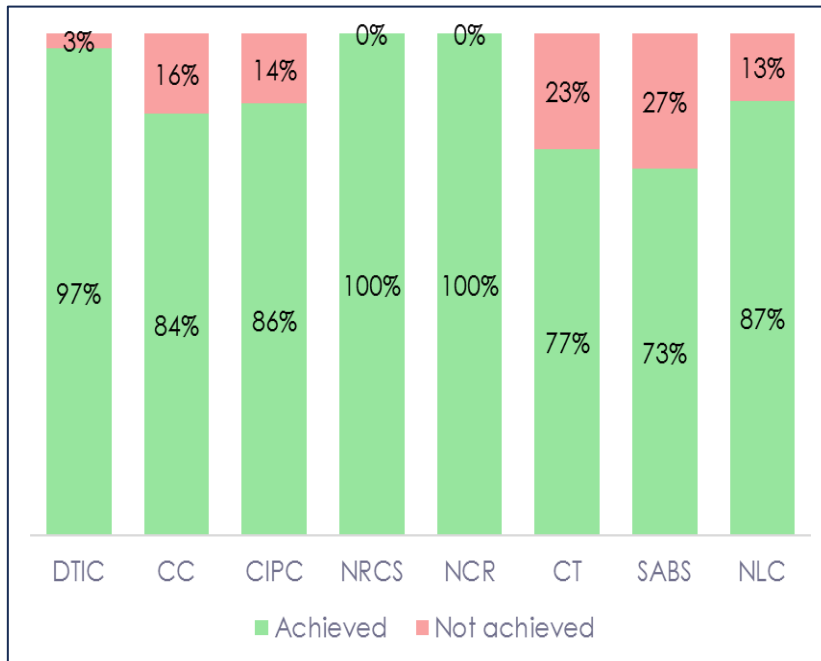
Key targets in medium-term strategic framework for portfolio

- As of 31 March 2023, 12 industrial parks were revitalised with one (1) in reconstruction phase (year 4 of MTSF) out of a five-year MTSF target of 26 industrial parks revitalised. As discussed with management, this was due to budget constraints as the budget had to be re-prioritised to rebuilding critical infrastructure impacted by unforeseen challenges such as floods which impacted a number of provinces during the MTSF period.
- The department was able to meet the set MTSF target to develop master plans by end of 2021 for automotives, poultry, sugar, steel and metal fabrication, and retail master plans.

Key targets in the 2020 – 2025 DTIC strategic plan

- R42 billion projected investment has been leveraged from enterprises/projects in the 2022/23 financial year that were able to access industrial finance measures in the 2022-23 FY out of a five-year target of R75 billion from the strategic plan of the department.

Achievement of annual targets as reported in annual performance report (all indicators) – 2022-23



Reflection on key targets

The following key targets were not achieved:

- Strategic partnerships with nine key stakeholders (provincial and national) are developed and implemented. (NLC)
- 90% of applications adjudicated within 150 days. (NLC)

Root cause for non-achievement: The Executive Authority in terms of Section 26A of the Lottery's Act must appoint a Distributing Agency (DA). A DA is the only body that can adjudicate applications. There was no appointed DA for a period of 68 days which resulted in delays for the adjudication process.

What is the impact on non-achievement on the lives of the citizens

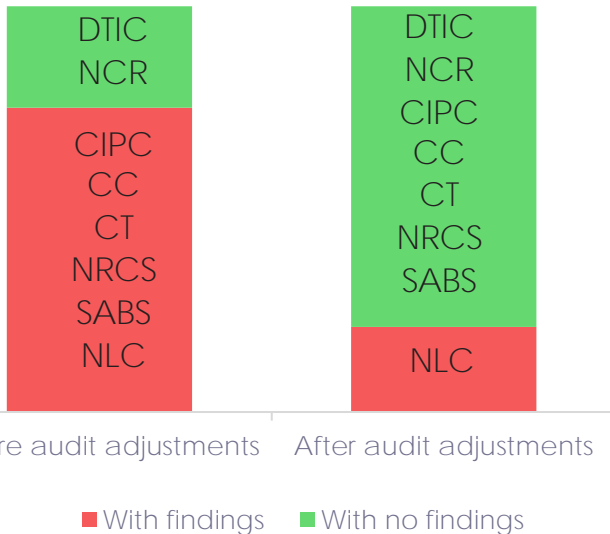
- Lack of strategic partnerships hinders the ability of the NLC to co-ordinate the monitoring of funded projects and ensuring that they are maintained to ensure continued service delivery.
- This target relates to the application for funding by various NPO's and thus timely adjudication of the application will result in timely disbursement of funds for the applicable projects by the NPO. Delays in approval/adjudication delays the commencement of projects to support the NPO's



Performance planning and reporting has impact on service delivery

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Quality of performance reports before and after audit



Recommendation

The committee should interrogate the annual performance plan to ensure that it is aligned to the service delivery mandate of the entity and the indicators and targets are well defined to support credible performance reporting (NLC).

Findings: Planning for service delivery/Reporting

- *NLC: Indicator 4.2 – A minimum of 10% allocated to projects located in the Districts of the District Development Model (DDM)*
- The indicator was included in the approved APP and strategic plan, but not clearly defined during the planning process. It was also not clear how the related target would be measured and what evidence would be needed to support the achievement.

Key Root Cause

- Ineffective reviews over the annual planning documents to ensure the indicators are well defined.
- Senior management did not address deficiencies relating to oversight of the performance reporting process and related Internal controls. Instability in leadership and the accounting authority was the key contributor to the audit outcome of the NLC

Impact

The indicator that is not well-defined result in targets that do not fully meet the SMART criteria (not measurable) and therefore the performance against these indicators cannot be adequately monitored, which will ultimately lead to the above project not being funded adequately.

It will be difficult to confirm if the entity did in fact achieve this target and thus whether the entity met its service delivery mandate.



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FINANCIAL MANAGEMENT AND COMPLIANCE



Most common areas of non-compliance

2022-23

DTIC, CIPC, CC, CT, NCR, NRCS

NLC, SABS

MOVEMENTS FROM
PREVIOUS YEAR:

2  0 

FROM FIRST YEAR OF
ADMINISTRATION:

1  1 



No material findings



Material findings

Most common areas of non-compliance

NLC

SABS

Procurement and contract management

X

Quality of financial statements

X

X

Prevention of irregular and fruitless and wasteful expenditure

X

Effecting consequences

X

Revenue management

X

Impact

Poor quality financial statements, results in users not receiving credible financial information for decision making

Lack of consequence management results in recurrence of non-compliance leading to incurrence of irregular and fruitless and wasteful expenditure.

Not collecting revenue on time, will impact on the financial sustainability of the entity and could lead to financial losses for the entity.

Recommendations

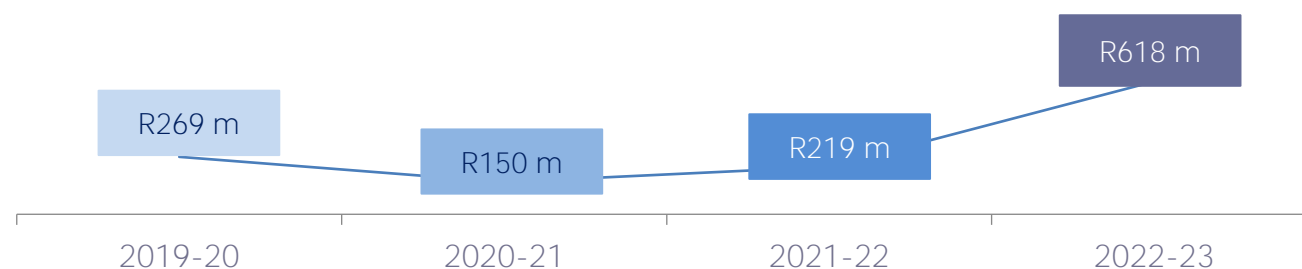
There are repeat audit findings from the prior year and no/ inadequate action plans was developed to address these findings. It would be critical for management to ensure that developed action plans are addressing the real root causes of the findings. Oversight bodies should monitor and enforce implementation of approved action plans.



Key financial management issues

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Closing balance of irregular expenditure continues to increase

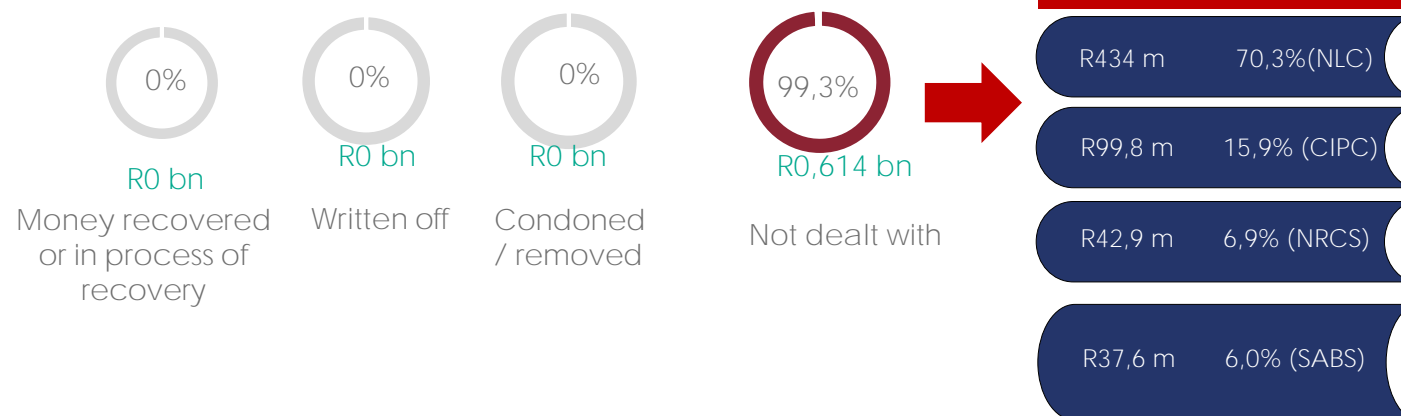


Reliability of IE balance

Material inconsistencies were identified

NLC – IE inconsistent

How have auditees dealt with irregular expenditure



Reasons for IE not dealt with:

1. Investigated and awaiting condonement

NRCS – PY IE
CC – PY IE
CIPC – Closing balance IE
SABS – PY IE

2. Not yet investigated

NLC – CY and PY IE



MATERIAL IRREGULARITIES



Material irregularity (MI) definition and process

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MI definition

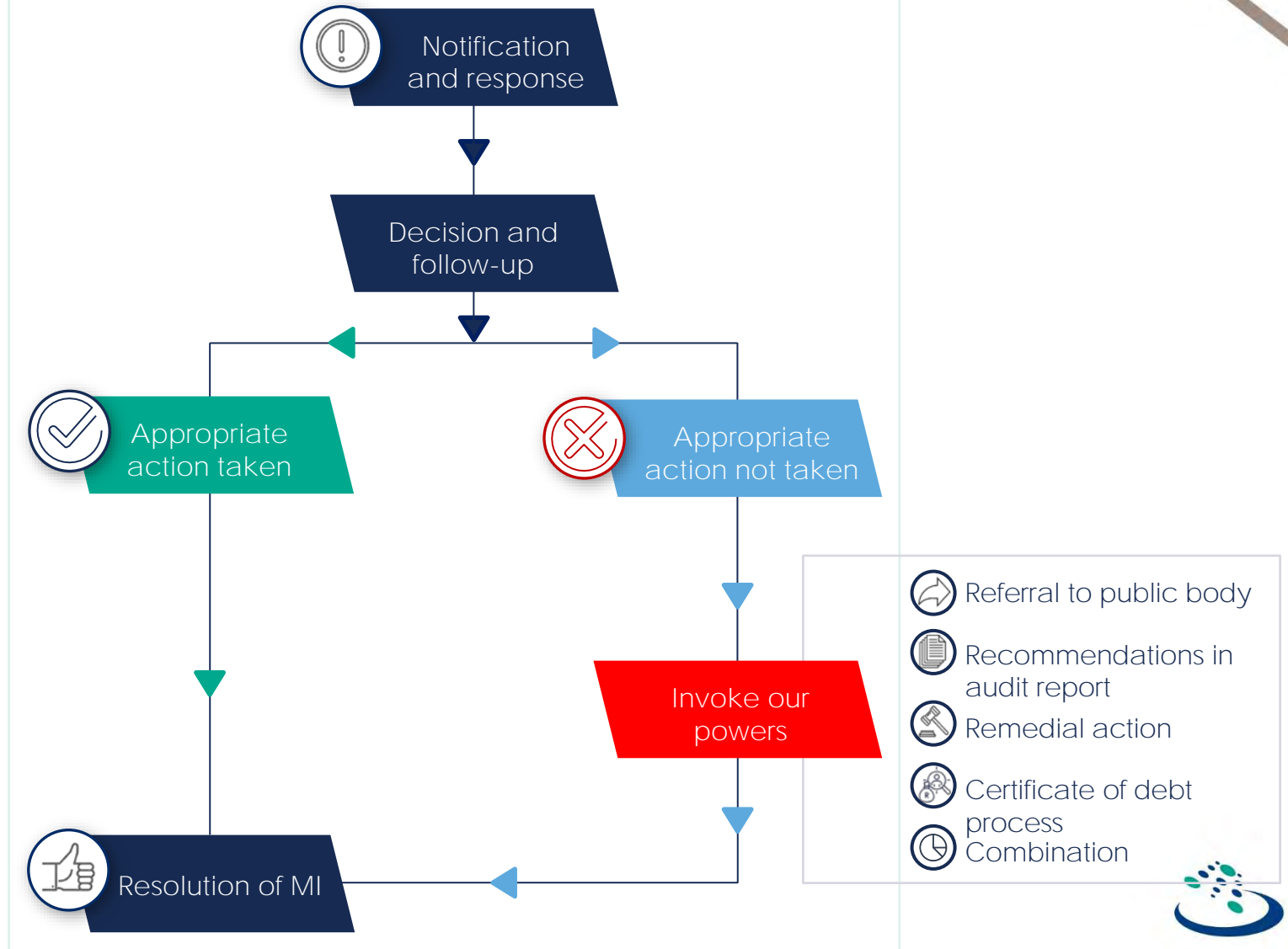
Any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public



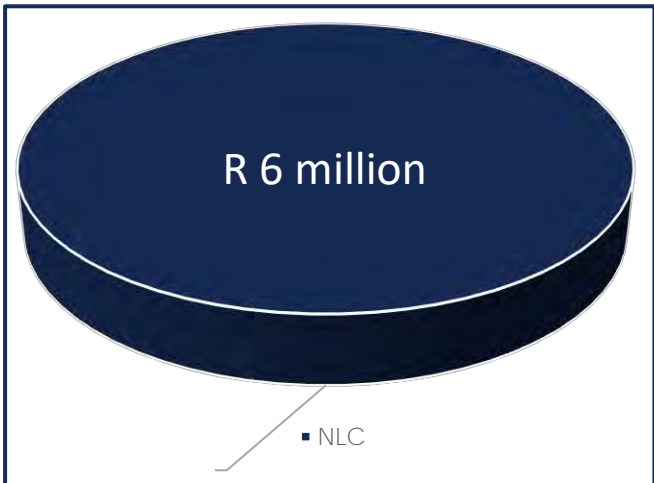
Objective

- Instil a culture of accountability
- Improve the protection of resources
- Enhance public sector performance and encourage an ethical culture
- Strengthen public sector institutions to better serve the people of South Africa

MI process



MATERIAL IRREGULARITIES



MI DESCRIPTION

Payments were made for the construction of a sport complex that was never delivered.



ACTIONS TAKEN BY AUDITEES

- R3 m Prevented financial loss from taking place
- R6 m Financial loss in process of recovery
- R0 m Financial loss recovered

- 4 Responsible officials identified and disciplinary process completed or in process
- 1 Investigations instituted
- 1 Stopped supplier contracts where money is being lost
- 1 Internal controls and processes improved to prevent recurrence

Observations from MI process

The MI was issued, and the accounting authority acknowledged the MI and set out the steps to investigate the matter, implement consequence management, recover the losses and enhance controls.

Recommendations for committee

Monitor the progress by the accounting authority to recover losses, institute proper consequence management and enhance controls to prevent a recurrence of this matter.



Improved service delivery enabled by capable, cooperative, accountable and responsive institutions delivering on their mandates

Activate the accountability ecosystem to address the current realities

1 Culture of no accountability and consequences

2 Ineffective resource management

3 Credible reporting of performance information

Our recommendations

Committee to monitor the steps taken by the entity to recover the losses, implement consequence management and enhance controls to prevent a recurrence of this matter.

The committee should oversee the process to strengthen policies and processes to prevent future mismanagement of grant allocations funding (NLC).

Committee to receive feedback through the in-year engagements with the entity on the implementation of action plans to address prior year audit findings.

The committee should further monitor the progress on the filling of key vacancies in the entity through in-year engagements with the Executive Authority and Accounting Authority. (SABS)

Executive authorities and committees in parliament should insist on timely and credible reporting and accountability, and should play an oversight role effectively and with greater impact

The committee should interrogate the annual performance plan to ensure that it is aligned to the service delivery mandate of the entity and the indicators and targets are well defined to support credible performance reporting. (NLC)



THE DISPUTE RESOLUTION MECHANISM





- Reaffirm the AGSA's mandate to audit and report
- Include multiple opportunities for auditee to be heard
- Ensure that resolution is always done in professional manner
- Cement the role of engagement manager
- Classify as dispute if it cannot be resolved by engagement manager
- Enhance focus and attention to timely resolution
- Applicable to audit and audit-related services – irrespective of whether report is signed or not
- Dispute resolution is responsibility and accountability of those with direct knowledge of auditee

Why disputes arise

What drives disputes/complaints:

- Differing legal interpretations
- Differing application of accounting standards
- Auditees' desire for a clean audit
- Need for procedural fairness

Scope



OVERVIEW OF THE DISPUTE RESOLUTION PROCESS

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Engagement manager will, as part of audit process, resolve all matters being disputed through support from technical support and NT (where applicable).
Auditee will be encouraged to reach out to NT for support on matter raised.

Auditee still disagrees



Engagement manager

Auditee still disagrees



Tier 1
Escalation to head of
portfolio

Final outcome/decision



Tier 2
Head of audit

Supported by technical support divisions within AGSA and external stakeholders (e.g. NT)



- Auditor-general has delegated this accountability and decision making to heads of audit
- Auditor-General may also get involved in matter before it goes for judicial review
- Auditor-General will otherwise be involved when cited as a respondent in court proceedings



THANK YOU

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